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E.O. 11652:

TAGS:

SUBJECT: JAPANESE ECONOMIC MISSION MEETS WITH SECRETARY
SIMON

1. JAPANESE ECONOMIC MISSION LED BY SUMITOMO PRESIDENT
HASEGAWA MET WITH SECRETARY SIMON, UNDER SECRETARY
BENNETT, AND ASSISTANT SECRETARY PASKY MARCH 14. DIS-
CUSSION COVERED WIDE RANGE OF DOMESTIC AND INTERNATIONAL
ECONOMIC ISSUES.

2. HASEGAWA SPECIFICALLY INTERESTED IN OUTLOOK FOR U.S.
ECONOMY AND STRESSED NEED FOR COORDINATION OF POLICIES
AMONG INDUSTRIAL COUNTRIES. SIMON REVIEWED DOMESTIC
CONDITIONS AND OUTLOOK EMPHASIZING CYCLICAL ASPECTS
CURRENT SITUATION, FACT THAT INFLATION HAD BEEN MAJOR
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CAUSE OF CURRENT PROBLEMS, RECENT GREATER THAN EXPECTED

DROP IN INFLATION RATE, AND EXPRESSED OPINION THAT SEMI-AUTOMATIC STABILIZERS BUILT INTO EVERY RECESSION AND RESULTS RECENT POLICY CHANGES (E.G., CHEAPER CREDIT, HIGHER REAL INCOMES, INVENTORY LIQUIDATIONS) WILL ASSIST RECOVERY IN THIRD AND FOURTH QUARTER. SIMON BELIEVES CURRENT FY 75 BUDGET DEFICIT LIKELY TO BE NEAR \$45 BILLION AND \$80 BILLION OR MORE IN FY 76, DEPENDING ON CONGRESSIONAL ACTION. INFLATION RATE BY END 1975 EXPECTED BE NEAR 5-6, LESS THAN EARLIER EXPECTED.

3. IN RESPONSE TO QUESTION, SIMON EXPRESSED VIEW THAT RECENT DEPRECIATION OF DOLLAR HAD BEEN HIGHLY OVER-DRAMATIZED. U.S. INFLATION RATE, ALTHOUGH HIGH, STILL BELOW MOST OTHER MAJOR COUNTRIES AND OVER LONG-RUN INFLATION CONTROL IS KEY TO DOLLAR STABILITY. ON A COMPARATIVE BASIS U.S. DOLLAR HAS BEEN SECOND MOST STABLE CURRENCY SINCE DEVALUATION (MOST STABLE BEING CANADIAN DOLLAR). DURING 1974 DOLLAR STRENGTHENED MORE BETWEEN MAY AND AUGUST THAN FELL SEPTEMBER TO JANUARY. DOLLAR HAD BEEN DEPRECIATED 20.5 PERCENT AFTER SECOND DEVALUATION, WAS DOWN ONLY 13.5 PERCENT LAST MAY, NOW ONLY 17 1/2 PERCENT, ABOUT MID-RANGE (PERCENTAGES RELATED TO MAY 1970 BASE, TRADE WEIGHTED FOR OECD COUNTRIES). SIMON SAID U.S. HAD NO REPEAT NO INTENTION OF RETURNING TO FIXED EXCHANGE RATE REGIME OR OF ATTEMPTING TARGET ZONE OF EXCHANGE RATE ALTHOUGH U.S. PREPARED USE INTERVENTION IN FOREIGN EXCHANGE MARKETS TO MAINTAIN ORDERLY MARKETS.

4. IN RESPONSE TO SPECIFIC QUESTION SIMON DENIED RUMOR OF POSSIBLE RETURN TO CAPITAL CONTROLS EMPHASIZING THAT WE HAVE NO REPEAT NO DESIRE TO IMPEDE TRADE OR INVESTMENT FLOWS; IN FACT, SIMON NOTED, WE WELCOME INVESTMENT FLOWS.

5. BENNETT RESPONDED TO DOLLAR OVERHANG QUESTION BY HARA EXPLAINING THAT OVERHANG EXISTED PRE-1971 WHEN GOVERNMENTS HELD U.S. TREASURY OBLIGATIONS IN SUPPORT OF MONETARY SYSTEM RATHER THAN AS VOLUNTARILY DESIRED INVESTMENT ASSETS. IN CURRENT SITUATION, DOLLAR ASSETS ARE WILLINGLY HELD BY JAPANESE AUTHORITIES AND OTHERS LIMITED OFFICIAL USE

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AND THE WILLINGNESS ITSELF OBVIATES OVERHANG QUESTION.

6. BENNETT EMPHASIZED NEED FOR COOPERATION, COORDINATION AND UNDERSTANDING AMONG INDUSTRIAL COUNTRIES. DOLLAR STABILITY IS NEEDED BOTH FOR U.S. AND OTHERS BUT DOLLAR STABILITY IS ATTAINED BY CONTROLLING INFLATION RATES AND NOT BY GOVERNMENT INTERFERENCES IN EXCHANGE MARKETS. HE EMPHASIZED THAT WE BROKE FROM GOLD IN BELIEF THAT GOLD

WAS A DESTABILIZING INFLUENCE OVER LONG-RUN. FIXED EXCHANGE RATES IN PRACTICE WOULD BE MORE DESTABILIZING OVER LONG-RUN AS PRESSURES ACCUMULATED FOR CHANGE AND GOVERNMENTS RESISTED CUMULATIVE MARKET FORCES. BENNETT EMPHASIZED THAT FLUCTUATING EXCHANGE RATE SYSTEM AVOIDED LARGE AND DISRUPTIVE EXCHANGE RATE CHANGES OVER LAST THREE YEARS DURING A PERIOD OF EXTREMELY RAPID ECONOMIC CHANGE (E.G., OIL PROBLEMS, INFLATION, RECESSION). HE NOTED THAT U.S. HAD INTERVENED SOME \$1 BILLION SINCE

SEPTEMBER TO ASSURE ORDERLY MARKET. INTERVENTION BY OTHER CENTRAL BANKS HAD BEEN ON BOTH SIDES AND HAD LARGELY NETTED OUT. BENNETT SUGGESTED THAT TOO MUCH INTERVENTION BUILDS UP PRESSURE FOR LATER AND LARGER EXCHANGE RATE SHIFT SUCH AS JAPAN HAS RECENTLY EXPERIENCED. BENNETT NOTED STABILITY OF CURRENT SYSTEM BY OBSERVING THAT THE CHANGES IN CURRENCIES VALUES WOULD HAVE BEEN LARGER IF SYSTEM HAD BEEN UNDER FIXED RATES.

7. PARSKY DESCRIBED ENERGY POLICIES AS THREEFOLD. (1) DOMESTIC RELIANCE ON MARKET DETERMINED SOLUTIONS (TAX, PRICE) RATHER THAN GOVERNMENTAL INTERFERENCE (QUOTA, ALLOCATION), (2) COORDINATION WITH CONSUMING COUNTRIES ON CONSERVATION EFFORTS, FINANCIAL AGREEMENTS, AND DEVELOPING ALTERNATIVE ENERGY RESOURCES, AND (3) COORDINATION WITH PRODUCERS IN THE FORM OF ECONOMIC COOPERATION RATHER THAN NEGOTIATIONS SOLELY ON THE PRICE OF OIL. RESPONDING TO FLOOR PRICE QUESTIONS, PARSKY SAID IEA HAD BASICALLY AGREED TO A QUOTE SAFETY NET UNQUOTE PRICING PROPOSAL TO GUARD AGAINST A SUDDEN, ARBITRARY, PRICE REDUCTION. HE SAID THIS WAS A MATTER FOR CONSUMERS TO DECIDE NOT, REPEAT NOT, TO BE NEGOTIATED WITH PRODUCERS. INGERSOLL
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